

Trends in the U.S. Retail and Food Service Industry

Hotel, Restaurant, Institutional and Retail

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2005 USDA AGRICULTURAL OUTLOOK FORUM

USDA's annual Agricultural Outlook Forum was held February 24-25, 2005 in Arlington, Virginia. The conference examined the current state of U.S. agriculture and included panel discussions on various issues important to the nation's food and agricultural sector. The theme of the conference was "Science, Policy, Markets- What's Ahead?" This month's newsletter contains highlights from the 2005 Retail Price Outlook session and the session entitled "Impact of Alternative Retail Outlets on Supply, Demand, and Prices."

2005 Retail Food Price Outlook

Ephraim Leibtag, Food Price Economist for the Economic Research Service, USDA, gave a briefing on U.S. retail food prices for 2005. Dr. Leibtag said that retail food prices in the United States are expected to increase between 2.5 and 3.5 percent in 2005. Within the retail food category are the food-away-from-home (for example, restaurants and similar settings) and food-at-home subcategories. The predicted price increases for these subcategories are expected to be the same as the main category, though the food-away-from-home industry may react slower to increases in costs.

Impact of Alternative Retail Outlets on Supply, Demand, and Prices

Michael Sansolo, Senior Vice President of the Food Marketing Institute (FMI) noted that the retail food competitive landscape has changed. In the past, the supermarket was where most American shoppers went for their groceries, usually about three times per week. Now, American grocery shoppers go to the stores that fit their needs, and these stores are not always supermarkets.

"Every store in the supermarket strip mall competes with supermarket." Mr. Sansolo said.



Photo: Ken Hammond, USDA

Mr. Sansolo illustrated this trend by pointing out that in the 1980s, 90 percent of all dog food purchases in the United States took place in supermarkets. Today, only 40 percent of dog food purchases are in supermarkets, as consumers increasingly use pet shops

and pet superstores for their dog food needs.

In the past, location and availability of fresh fruits and vegetables put supermarkets ahead of other retail food outlets. While it is true that location is still important, consumers are willing to go out of their way to get the exact product that they want. In addition, other retail food outlets are now competing with supermarkets by offering more fresh fruits and vegetables.



Photo: Ken Hammond, USDA

Amy Philpott, Vice President of Marketing and Industry Relations for the United Fresh Fruit and Vegetable Association, addressed the producer response to changes in the retail food market.

Historically, fresh fruits and vegetables, also referred to as produce, were mainly purchased in supermarkets and not often purchased in convenience stores, delicatessens, or other retail food outlets. "Traditional retail outlets haven't always been traditional for produce," Ms. Philpott noted.

Now, convenience stores, delicatessens, and others are offering more produce to shoppers. While some grocery products are being streamlined

for all types of stores, retail food outlets are actually increasing the number of produce offerings.

Ms. Philpott explained that in response to the changing retail structure, fruit and vegetable producers are doing the following.

- Joining with other producers to have a larger market presence while maintaining separate companies. The benefits to this approach include dependable year-round supplies and helping the retailer to consolidate the number of companies they deal with.
- Having closer relationships with the buyers for the retail stores.
- Providing additional services to the stores, such as plastic returnable cartons, automatic inventory replenishment programs, and third-party food-safety certifications.
- Targeting products for niche and non-traditional produce markets such as organic, hydroponic, or such retail outlets as farmer's markets, dollar stores, and convenience stores.

James G. Hertel, Jr., Senior Vice President of Willard Bishop Consulting, Ltd., talked about alternative channel retailers such as Wal-Mart and their affect on current food retailing.

Alternative channel retailers learned that if they added more food to their product mix, they could increase the amount of trips shoppers made to their stores and increase the average transaction amount. Alternative channel retailers such as Wal-Mart used low food

prices as a way to draw consumers, and it worked.

“Wal-Mart has become the reference point for what a product should cost,” Mr. Hertel pointed out. Mr. Hertel said that traditional food stores have seen a dramatic loss of product share in non-edibles and in dry grocery items. The question many are asking now: are perishable items next?

Dr. Leibtag discussed the price affects of the alternative food retail outlets’ growth. While there are many other factors to consider, all the new competitors on the food retail landscape may have the effect of keeping prices down. However, it is important to remember that not all food retail outlets carry the same categories, the same package sizes, and the same choice of items, making cross-store comparisons difficult.

Full Text of Agricultural Outlook Forum Speeches

Forum speeches, presentations, and reports are available online. Go to <http://www.usda.gov/oce/forum/> to view or download speech texts and slide presentations.



Photo: Ken Hammond, USDA

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